

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

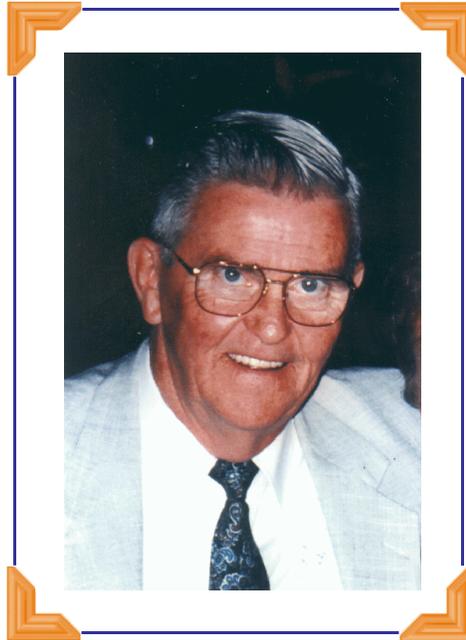
- a component unit of the State of Delaware



30TH COMPREHENSIVE ANNUAL FINANCIAL REPORT

*Presented by the Board of
Pension Trustees
For the Fiscal Year Ended
June 30, 2001*

In Memoriam



Donald F. McArdle
1930 — 2000

Donald McArdle served the State of Delaware as the Retirement System Administrator for 17 years, retiring in 1992. After his retirement, he was appointed by the Governor to serve as the Commissioner of Elections for one year and, beginning in 1999, was appointed as a member of the State Board of Pension Trustees.

*In honor of Mr. McArdle's dedicated service to the Delaware Public Employees' Retirement System and to the State of Delaware in general, the new Pension Office building has been named the "**McArdle Building**" in his memory.*

The Board, its Committees, and the staff of the Pension Office extend fond wishes and continuing sympathy to his wife, Louise, and his three daughters, Kathy, Helen, and Peggy.



Thirty years ago, the first Thomas Collins Building was the home of the Pension Office. In 1971, there were less than 10 employees who worked under the direction of the State Treasurer.

The Thomas Collins Building, built in 1984, became the new home of the Pension Office. In 1984, the Pension Office still reported to the State Treasurer and had approximately 23 employees.



The McArdle Building, built in 1992, is the new home of the Pension Office since July 2001. The Pension Office is currently under the direction of the State Personnel Director and has a total of 55 employees.

On the Cover:

*Fourth of July Fireworks over Legislative Hall taken by Kevin Fleming.
Photo courtesy Delaware Development Office.*

State Personnel Office Mission Statement:

Provide the leadership and services for achieving a quality workforce.

Pension Office Programmatic Goal:

Maintain comprehensive and responsive systems for benefits and funds management, which helps retain a quality workforce and provides a secure and supportive retirement commitment.

THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT HAS BEEN
PREPARED BY THE OFFICE OF PENSIONS

MAILING ADDRESS:

McArdle Building, Suite #1
860 Silver Lake Boulevard
Dover, Delaware 19904-2402

TELEPHONE (800) 722-7300

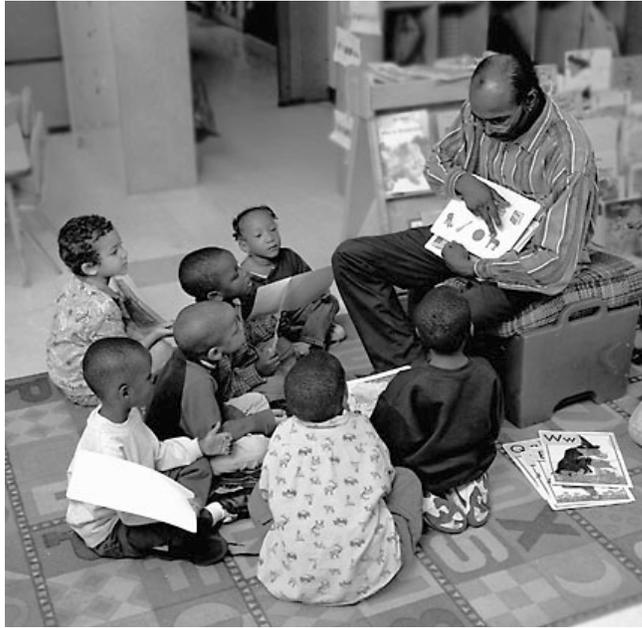
E-MAIL ADDRESS: pensionoffice@state.de.us

WEBSITE: www.delawarepensions.com



TABLE OF CONTENTS

Introductory Section	
Certificate of Achievement for Excellence in Financial Reporting	10
Letter of Transmittal	11
Board of Trustees and List of Consultants	18
Organizational Chart	19
Highlights of Board Activities	20
2001 Legislation Affecting Pensions	22
Financial Section	
Auditor's Opinion	26
Management's Discussion and Analysis	28
Basic Financial Statements:	
Statement of Plan Net Assets	32
Statement of Changes in Plan Net Assets	34
Notes to Financial Statements (an integral part of the Basic Financial Statements)	36
Required Supplementary Information:	
Schedule 1 - Funding Progress	44
Schedule 2 - Employer Contributions	46
Schedule 3 - Notes to Trend Data	48
Supporting Schedules:	
Schedule 4 - Administrative Expenses	50
Schedule 5 - Investment Expenses	51
Investment Section	
Letter from Investment Committee Chair	55
Investment Activity	57
Investment Results	58
Chart I - Calculated Returns	59
Chart II - Investment Performance Summary	59
Chart III & IV - Five and Ten Year Fund Performance	60
List of Largest Assets Held	61
Investment Discussion: <i>Surviving "The Perfect Storm"</i>	62
Asset Allocation	64
Investment Managers	65
Investment Summary	66
Glossary	66
Appendix A - Schedule of Broker Commissions	67
Appendix B - Broker Commission Summary	68
Actuarial Section	
Actuary's Opinion	74
Summary of Actuarial Assumptions & Methods	76
Mortality Tables	77
Summary of Plan Provisions and Changes in Plan Provisions	77
Schedule of Active Member Valuation Data	78
Schedule of Retirees and Beneficiaries Added/Deleted from Rolls	80
Solvency Test	82
Analysis of Financial Experience	83
Statistical Section	
Schedule of Additions by Source	88
Schedule of Deductions by Type	90
Schedule of Benefit Deductions by Type	94
Schedule of Retired Members by Type of Benefit	96
Schedule of Average Benefit Payment Amounts	97
Schedule of Participating Employers	104



John Loy photo, courtesy of the Department of Services for Children, Youth and Their Families, Wilmington.

***The State Employees Pension Plan** includes members throughout all three counties of the State of Delaware — from Department of Services for Children, Youth and Their Families in New Castle County — to the Charter Schools in Kent County — to the State Parks in Sussex County. Members include not only general State employees, but employees of Delaware Public and Charter Schools, the Delaware National Guard, the Solid Waste Authority, State Legislators and Elected Officials, Delaware State University, Delaware Technical & Community College, and some employees of the University of Delaware.*

Established in 1945, the State Employees' Pension Plan covered any employee who received regular salary or wage wholly or in part from the State Treasury. It included employees from the State Board of Health, the Department of Public Welfare, the University of Delaware, Public Schools within the State of Delaware, and the Board of Public Education. It specifically excluded officers elected by popular vote.

In the early years of the plan, employees were not required to contribute toward their pensions; the State contributed on a pay-as-you-go basis. The only eligibility requirement was the completion of 35 years of service. Disability pensions were available after 25 years of service. The maximum pension was \$150 per month.

In 1966, Governor Charles L. Terry, Jr., under the direction of the 123rd General Assembly, appointed a Pension Study Committee to “review the current system, to make recommendations, and to create legislation providing for an actuarially sound, completely equitable pension program for those not now adequately covered.”

This Committee issued its report in January 1969 with the following highlights which were enacted during Fiscal 1971:

- ◆ *Established a program of funding based on actuarial valuations and a 40-year amortization schedule.*
- ◆ *Benefit enhancements included:*
 - ◆ *vesting after 20 years of service,*
 - ◆ *an increase in the maximum annual benefit to \$12,000 for employees with 30 years or more of service, and*
- ◆ *Survivor benefits were expanded to include not only surviving spouses, but also dependent children and parents.*



Campus Community Charter School located in Dover.



Delaware Seashore State Park at the Indian River Inlet in Sussex County, Delaware. Photo courtesy Delaware Department of Natural Resources.

The State Employees' Pension Plan has undergone many enhancements in the last 30 years.

This plan achieved full funding in 1989 — only 19 years after funding began. Employees today contribute only 3% of their salary over \$6,000 per year and benefits have been improved dramatically.

As of December 31, 1970, there were 18,597 active members in the State Employees' Pension Plan compared to less than 7,000 active members in 1953. On June 30, 2001, plan participants total over 32,000 with an average age of 44, and an average annual salary of \$39,700.

At the end of 1970, there were 2,052 pensioners with an average age of 70 and an average monthly pension of \$246. On June 30, 2001, there were 15,651 pensioners with an average age of 70 and an average monthly pension of \$933.



INTRODUCTORY SECTION

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM

- a component unit of the State of Delaware

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Delaware Public Employees Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Anne Spray Kinney
President

Jeffrey L. Esser
Executive Director



STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
 McArdle Building, Suite #1
 860 Silver Lake Blvd.
 Dover, DE 19904-2402

When Calling Long Distance
Toll Free Number 1-800-722-7300

Telephone (302) 739-4208
Fax # (302) 739-6129

September 28, 2001

The Honorable Ruth Ann Minner
 and
 Members of the 141st General Assembly

Dear Governor and Members of the General Assembly:

This Comprehensive Annual Financial Report (CAFR) marks the 30th anniversary of the Delaware Public Employees' Retirement System (System). It is dedicated to the memory of Donald F. McArdle, whose commendable service to the System spanned 19 of those 30 years, first as Pension Administrator and finally as a member of the Board of Pension Trustees. The Report also celebrates the nearly 56,000 members served and the progress made in assuring their pension benefit coverage.

This report provides comprehensive information on nine retirement plans [State Employees', Special, New State Police, Judiciary, County & Municipal Police/Firemen's (FICA and Non-FICA), County & Municipal Other Employees', Volunteer Firemen's, Diamond State Port Corporation, and Closed State Police] plus three commingled pension funds [County & Municipal Police/Firemen's COLA Fund, Post-Retirement Increase Fund, and Delaware Local Government Retirement Investment Pool (DELRIP)]. Responsibility for both the accuracy of the data and the completeness and fairness of presentation rests with the State Board of Pension Trustees (Board). To the best of our knowledge and belief, the enclosed data are accurate in all material respects and present fairly the System's financial position and operational results for the fiscal year ended June 30, 2001.

The 2001 Financial Report is presented in five sections:

- ♦ **Introductory Section -**
contains this transmittal letter, organization charts, Board and Legislative highlights.
- ♦ **Financial Section -**
provides the independent auditors' opinion, management's discussion and analysis, the System's financial statements, required supplementary information, and supporting schedules with additional information about the System's financial position at the Plan level.
- ♦ **Investment Section -**
details total Fund performance, investment policy, and investment activities.

INTRODUCTORY SECTION

The Honorable Ruth Ann Minner
and
Members of the 141st General Assembly
Page 2
September 28, 2001

- ♦ Actuarial Section - outlines the actuarial assumptions and describes the funding basis, contributions, and funded ratios of each Plan.
- ♦ Statistical Section - includes tables and graphs about each Plan's membership.

(A detailed Table of Contents may be found on page 5.)

DPERS was established on June 11, 1970 with the incorporation of the State Employees', Judiciary, Closed State Police, and Retired & Disabled Teachers Pension Plans. The State Employees' and the Judiciary Plans were changed to actuarial reserve funding shortly thereafter. The Closed State Police Pension Plan remains a pay-as-you-go plan. Fiscal year 1994 was the last year the Retired & Disabled Teachers' Pension Plan had members entitled to benefits.

When calendar 1971 ended, the four pension plans totaled \$14.7 million in assets with 2,766 pensioners. The State's contribution was 13.1% of payroll. At the end of fiscal 2001, pensioners numbered 17,449; monies from nine plans, two post-retirement trusts and one investment pool were commingled in a total Fund of \$5.3 billion. The State's contribution rate for Fiscal Year 2001 was 1.67% of payroll. Benefit coverage varies by plan as shown on pages 36 - 38. In the major plans, benefit coverage has been regularly improved to maintain a very competitive position versus similar plans in other states, especially considering post-retirement health and spousal benefits. The funding status of each plan is detailed on pages 44-45.

Major Accomplishments

Improved Communications and Customer Service Initiatives - During Fiscal 2001, the Pension Office launched an enhanced website, www.delawarepensions.com, and added a Pension Office e-mail address. The website allows members of each plan to calculate pension estimates based on their personal data. It includes plan descriptions, financial information, current news, and a facility to communicate with the Pension Office. Usage indicates both the website and e-mail link are well received. Comprehensive annual statements containing healthcare, survivor, and life insurance beneficiary information are distributed annually to all active employees and pension recipients. Newsletters to both employees and retirees are published at least semi-annually.

Improved Pension Benefits - Legislation passed effective July 1, 2001 increased the pension calculation multiplier in the State Employees' Pension Plan from 1.8% to 2.0% on creditable service prior to January 1, 1997 and to 1.85% on creditable service after December 31, 1996 for employees retiring after June 30, 2001. These changes increase the monthly pension entitlements by approximately 3 -10%, depending on years of credited service. The same legislation increased the death benefit payable to a pensioner's beneficiary or estate from \$6,000 to \$7,000.

For the eighth consecutive year, legislation granted a post-retirement increase to members of the State Employees', Special, New State Police, Judiciary, and the County & Municipal Police/

The Honorable Ruth Ann Minner
and
Members of the 141st General Assembly
Page 3
September 28, 2001

Firemen's Pension Plans. The increase, effective July 1, 2001, applies to all members who retired on or before June 30, 2001.

Technology Improvements - The Pension Office implemented the Pension Resource for Imaging Document Efficiency (PRIDE) to facilitate individual document retrieval and reduce dependency on paper documentation. This project complements the Comprehensive Retirement Information System (CRIS) first implemented in May 1999. CRIS continues to demonstrate the capability of effectively and efficiently tracking the active membership from their contributory years through retirement.

New Facility - On July 27, 2001, the Pension Office moved to a renovated building in the Silver Lake Office and Residential Park. The new facility provides badly needed space for the staff and resources servicing a growing membership. It allows for confidential, individual counseling on pension matters, on-site workshops, and staff training.

Joint Sunset Committee Review - After a thorough review of the policies, practices, and operations of the Board of Pension Trustees and the Pension Office, the Joint Sunset Committee of the General Assembly recommended the Agency be continued subject to four recommendations. The first two recommendations involve statutory language modifications to codify current operations and will be addressed by legislation initiated by the Committee. The Board also welcomed the recommendation to continue its involvement in disability pensions. The Board will remain open to opportunities for private equity investment in Delaware which are commensurate with accepted market returns.

Certificate of Achievement - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Delaware Public Employees' Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2000. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the fifth consecutive year that DPERS has received a Certificate of Achievement. We believe this Fiscal 2001 report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The Honorable Ruth Ann Minner
and
Members of the 141st General Assembly
Page 4
September 28, 2001

Analysis of Plan Net Assets

Employee and employer contributions, together with investment income, are used to fund retirement, survivor and disability benefits and pay all System expenses. Combined plan net assets decreased by \$383.2 million over the last fiscal year as total revenues declined 114% and expenses increased 11%.

Decreased revenue was primarily due to a \$1.1 billion decline in dollars generated by investment returns. Lower required actuarial rates reduced employer contributions approximately \$20.7 million. An increased number of active employees, as well as some higher employee contribution rates and salaries, raised employee contributions by almost \$3.0 million. A post-retirement increase effective in July 2000 increased PRI Fund transfers by 14%.

On the expense side, benefit payments increased 10% as legislation raised the pension multiplier in the State Employees' Pension Plan and granted a post-retirement increase. Administrative Expenses increased 15% to approximately \$5.0 million. These expenses include both normal Pension Office expenses as well as one-time charges for the PRIDE project, a special Health Care Study and the Pension Office relocation. Normal Pension Office expenses rose 30% as job upgrades increased salaries and data processing costs continued to escalate.

Additions to Plan Net Assets

(Dollar values expressed in thousands)

Fiscal Years Ending June 30,	2001	2000	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Additions:				
Employer Contributions	\$ 75,025	\$ 95,675	\$ (20,650)	(21.58%)
Transfer of Contributions from PRI Fund	38,526	33,773	4,753	14.07%
Transfer of Assets from Outside the System	3,239	3,864	(625)	(16.18%)
Member Contributions	35,550	32,594	2,956	9.07%
Other Income	21	22	(1)	(4.55%)
Net Investment Earnings	<u>(287,086)</u>	<u>824,408</u>	<u>(1,111,494)</u>	(134.82%)
Total Additions	<u>\$ (134,725)</u>	<u>\$ 990,336</u>	<u>\$ (1,125,061)</u>	(113.60%)

The Honorable Ruth Ann Minner
and
Members of the 141st General Assembly
Page 5
September 28, 2001

Deductions from Plan Net Assets

(Dollar values expressed in thousands)

Fiscal Years Ending June 30,	2001	2000	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Deductions:				
Transfer of Contributions from PRI Fund	\$ 38,526	\$ 33,773	\$ 4,753	14.07%
Transfer of Assets Outside the System	2,710	2,134	576	26.99%
Benefit Payments	195,971	178,226	17,745	9.96%
Refunded Contributions	2,610	2,526	84	3.33%
Group Life Payments	3,710	3,615	95	2.63%
General Administrative Expenses	3,623	2,791	832	29.81%
PRIDE Project Expenses	379	414	(35)	(8.45%)
CRIS Project Expenses	—	1,131	(1,131)	(100.00%)
Health Care Study	45	--	45	100.00%
Office Relocation Expenses	925	--	925	100.00%
Total Deductions	<u>\$ 248,499</u>	<u>\$ 224,610</u>	<u>\$ 23,889</u>	10.64%

Investments and Economic Climate

For Fiscal 2001, investments had a (5.1%) rate of return. The total Fund's annualized rate of return over the last five and ten years was 11.3% and 12.7%, respectively. This performance placed the Fund above the median public fund return for the fiscal year and in the top 10% of public funds for the three, five, and ten year periods.

Fund investments are managed to control the extent of downside risk to which assets are exposed while maximizing long-term gain potential. This positions the Fund to limit the impact of adverse market conditions such as those experienced during the fiscal year. In the 12 months ending June 30, 2001, equity markets in general declined; the S&P500 index declined 14.8% while the broad market Russell 3000 return was (13.9%). International equities measured by the EAFE index also declined 15.9%. The importance of a diversified portfolio was again demonstrated as the equity declines were partially offset by increased bond and cash holdings as the Lehman Aggregate Bond Index rose 11.2% and 91-day Treasury Bills returned 5.0%. For a further discussion of portfolio diversification, see *Surviving "The Perfect Storm"* on page 62.

DPERS investment activity is governed by the "prudent person rule", a fiduciary standard which applies to anyone with System authority. Fiduciaries must discharge their duties solely in the interest of System participants and beneficiaries and with the degree of diligence, care, and skill which prudent men and women would ordinarily exercise under similar circumstances.

The Honorable Ruth Ann Minner
and
Members of the 141st General Assembly
Page 6
September 28, 2001

The Board has established the investment policy shown on page 57. Investment constraints are outlined, including the appropriate degree of risk. Investment managers are hired to execute the investment policy. They have full discretion for investment decisions within statutory authority, Board policy, and their respective guidelines. A list of the investment managers under contract with the Fund as of June 30, 2001, may be found on page 65 of this report. A summary of the total Fund's asset allocation can be found on page 64.

Equity markets continue to decline worldwide as concern for lower corporate profits, overextension in technology areas, and moderating demand for goods and services take their toll. Investment strategy reflects return expectations that are significantly more modest than those achieved during the period of the 1990's.

Funding Status

A pension plan is well funded when it has enough money in reserve to meet all expected future obligations to participants. The greater the level of funding, the larger the ratio of accumulated assets to actuarial accrued liability. The six largest plans included in the System have been essentially fully funded based on market valuations for the past nine years. The three smaller plans are not totally funded, but annual contributions are being made at the actuarially determined rate to reach full funding. The Notes to Trend Data Schedule presented on page 48 provides detailed information on each plan's remaining amortization period. The actuarial method for calculating accrued liability (in all plans except the County & Municipal Police/Firemen's and Other Employees') was changed in 1996 from Projected Unit Credit to Entry Age Normal with the objective of maintaining employer contributions approximately level as a percent of member payroll. A detailed discussion of funding method is provided in the Actuarial Section of this report on page 76.

Legislation granting increased pensions for those retiring on or after July 1, 2000 has reduced the funding status of the State Employees Pension Plan from 117% to 112.4%.

Internal Control

System internal accounting controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Control procedures and responsibilities are well documented both in writing and with graphic flowcharts. These are reviewed and updated annually.

The Audit Committee, a committee appointed by the Board, monitors operations and controls throughout the year. The System is audited annually by both the Delaware Auditor of Accounts and the independent auditing firm of Ernst & Young LLP.

The Honorable Ruth Ann Minner
and
Members of the 141st General Assembly
Page 7
September 28, 2001

Professional Services

Professional consultants are appointed by the Board to perform services essential to the effective and efficient operation of the System. A joint opinion from the certified public accountant, Ernst & Young LLP, and the State Auditor, as well as an opinion from the actuary, Milliman USA, are included in this report. Ashford Capital Management, Inc., serves as the investment advisor.

Acknowledgments

The preparation of this report reflects the combined efforts of the DPERS staff under the direction of the Board of Trustees. Specific sections and overall editing include contributions from various Board committees and professional consultants.

It is with deep regret that we report the death of Donald F. McArdle in November 2000. Don served as pension administrator for 17 years, retiring in 1992. In 1999, Don re-joined DPERS as a member of both the Board and Investment Committee. Don's commitment to high standards and his dedication to fair administration continue to guide the System.

The Board welcomes Nancy J. Shevock to the Board of Pension Trustees in the position formerly held by Donald McArdle. Joining Nancy are two new ex-officio members to the Board — Lisa Blunt-Bradley, Director of State Personnel, and David W. Singleton, Secretary of Finance.

The Board commends the service of the previous ex-officio members: Harriet Smith Windsor, now Secretary of State, and John C. Carney, Jr., currently Lieutenant Governor.

The Board thanks the many people who work so diligently to assure the successful operation and financial soundness of the Delaware Public Employees Retirement System. These include the Pension Office staff, the State Personnel Director who provides administrative supervision to the Pension Office; other State support personnel; professional consultants; members of the Investment, Medical, and Audit Committees; and the Pension Advisory Council.

Special thanks are due to the State of Delaware Public Archives and local offices of several State agencies for the pictures used throughout this report.

Respectfully submitted,



A. Dale Stratton, Chair
Board of Pension Trustees

INTRODUCTORY SECTION

Board of Pension Trustees, Board Committees, and Professional Consultants

Board of Pension Trustees

A. Dale Stratton, Chair
Former Director of Biotechnology Systems
DuPont Company

Robert W. Allen
President
Allen Petroleum

Keith Dorman
Former Principal
Colonial School District, New Castle Cty

Jan M. King
Former Vice President and Treasurer
Hercules, Inc.

Nancy J. Shevock
Former Director
Delaware Transit Corporation

Ex-Officio Board Members

David W. Singleton
State Secretary of Finance

Lisa Blunt-Bradley
State Personnel Director

Executive Secretary to the Board and Pension Administrator

David C. Craik

Investment Committee

Elva B. Ferrari, Chair
Jan M. King
C. Raeford Minix
A. Herbert Nehrling Jr.
A. Dale Stratton

Audit Committee

Joel S. Poorman, Chair
Robert W. Allen
Donald J. Hofmann
William Markell, Ed.D.

Medical Committee

William D. Shellenberger, M.D.
Vincent DelDuca, Jr., M.D.
Robert W. Frelick, M.D.
Edward F. Gliwa, M.D.
Charles S. Riegel, M.D.
Phyllis M. Smoyer, M.D.
Ignatius J. Tikellis, M.D.
Charles O. Webber, M.D.

Pension Advisory Council

James B. Testerman, Chair
Member-Delaware State Education Assoc.

Legal Counsel

Calvin L. Scott, Jr.
Deputy Attorney General

Consulting Actuary

Milliman USA

Investment Advisor

Ashford Capital Management, Inc.

Auditors

Ernst & Young LLP
State Auditor of Accounts

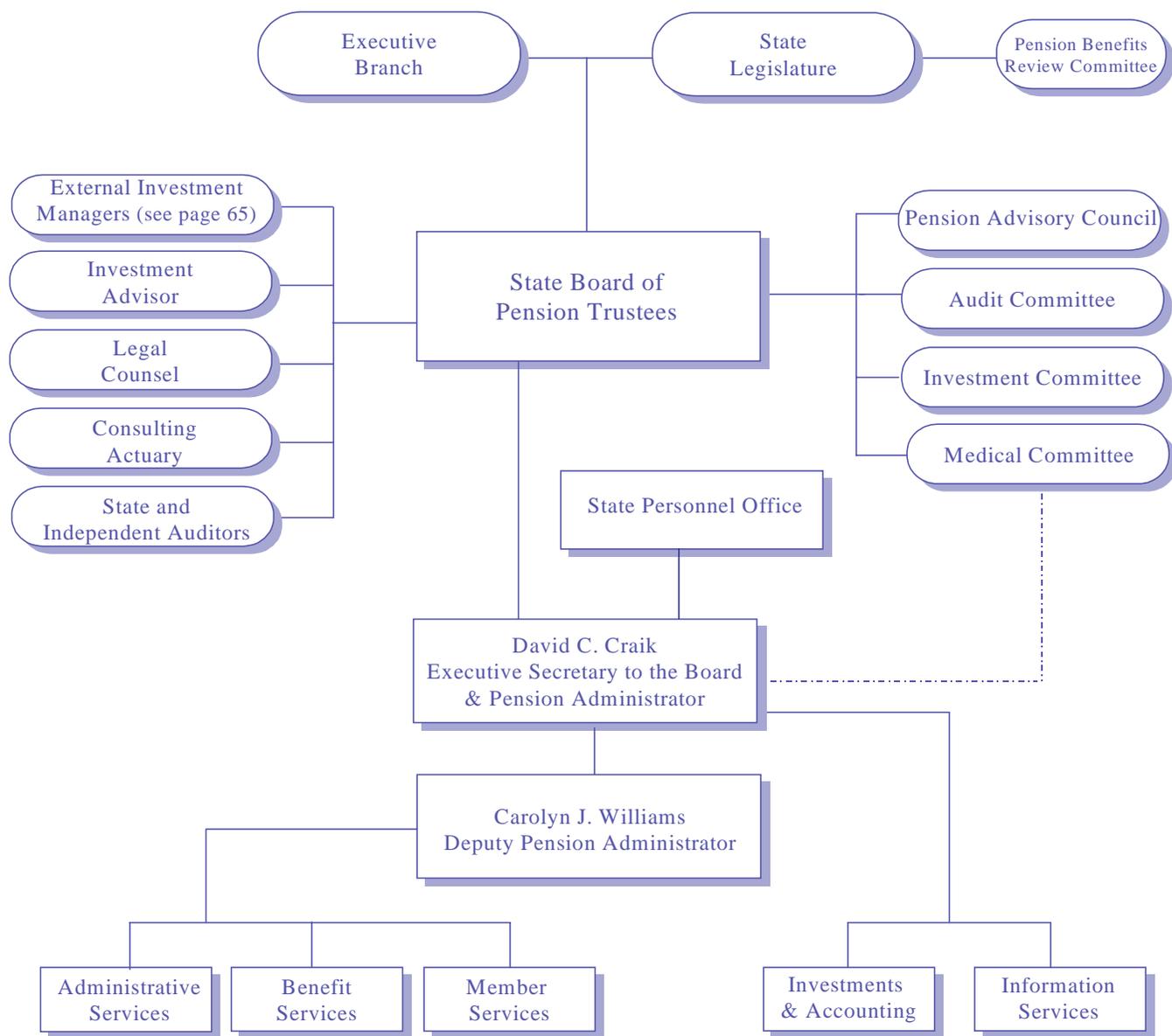
Custodial Bank

Mercantile-Safe Deposit & Trust Co.

Sub-Custodial Bank

State Street Bank & Trust Co.

Organizational Chart



MANAGEMENT TEAM

Administrative Services	Christy L. Ulmer, Office Manager
Benefit Services	Raymond P. Stewart Jr., Fiscal Administrative Officer
Member Services	Kimberly S. Vincent, Human Resource Manager
Investments & Accounting	Alice L. Simon, Pension Financial Manager
Information Services	John T. McCartney, Information Systems Manager and W. Ray Johnson, Human Resource Manager

INTRODUCTORY SECTION

Highlights of Board Activities

The Board of Pension Trustees (Board) -- comprised of five (5) members appointed by the Governor and confirmed by the Senate, and two (2) ex-officio members -- is responsible for the general administration of these pension plans:

- ◆ State Employees' Pension Plan.
- ◆ Special Pension Plan.
- ◆ New State Police Pension Plan.
- ◆ Judiciary Pension Plans (Closed and Revised).
- ◆ County & Municipal Police/Firemen's Pension Plans (FICA and Non-FICA covered).
- ◆ County & Municipal Other Employees' Pension Plan.
- ◆ Volunteer Firemen's Pension Plan.
- ◆ Diamond State Port Corporation Pension Plan.
- ◆ Closed State Police Pension Plan.

In addition to its general administrative responsibilities, the Board is responsible for these specific functions:

- ◆ Maintain and oversee the investment of the Delaware Public Employees' Retirement System.
- ◆ Appoint an independent actuary to perform annual actuarial valuations used as the basis for contributions to the Delaware Public Employees' Retirement System.
- ◆ Control and manage State pension payments.
- ◆ Hear appeals from State Pension Office decisions regarding eligibility for pension benefits.
- ◆ Adopt rules and regulations for the general administration of State pension plans.
- ◆ Prepare and publish an annual report to the Governor and General Assembly.
- ◆ Execute contracts with State agencies and others for assistance in pension plan administration and pension investment.
- ◆ Determine interest rates to be credited to members' contributions and rates to be charged on repayment of contributions previously withdrawn.

The day-to-day administration of these pension plans is performed by the State Pension Office, which also determines the eligibility of individual employees for pension benefits. The Pension Administrator reports to the State Personnel Director and also serves as Executive Secretary to the Board.

The Medical Committee of the Board is now comprised of eight (8) medical doctors, all in private practice. It evaluates and makes recommendations concerning the medical condition of applicants for and recipients of disability pensions. The Medical Committee meets each month prior to the regular monthly meeting of the Board.

Highlights of Board Activities *(continued)*

The four-person Audit Committee of the Board monitors operations and internal controls throughout the year to identify issues requiring Board and Pension Office action. They are responsible for interfacing with the Delaware Auditor of Accounts and the independent auditing firm to assure System compliance with accepted accounting practices and procedures.

The Board retains the firm of Milliman USA to provide professional actuarial and consulting services. Such services include the preparation of comprehensive actuarial valuations and reports, analysis of the costs and other aspects of proposed changes in pension provisions, general consulting advice, and background information on other public pension plans.

The Department of Justice assigns a Deputy Attorney General to serve as legal advisor to the Board. The Deputy deals with legal questions involving interpretations and administration of pension laws, advises the Board in connection with appeals hearings, works with the Board on drafting legislation and regulations, and negotiates contracts.

The following retirement funds have been established under the custody of the Board of Pension Trustees for investment purposes only:

- ◆ County & Municipal Police/Firemen's COLA Fund.
- ◆ Post-Retirement Increase Fund.
- ◆ Delaware Local Government Retirement Investment Pool.

The Board retains Ashford Capital Management, Inc., as investment advisor for the System. Ashford Capital Management provides a variety of services to the System including investment manager and custody contract negotiations, investment manager searches, performance analysis/attribution, investment policy, and asset allocation recommendations. The firm is prohibited by contract terms from managing any of the System's assets. A list of investment managers under contract with the Fund as of June 30, 2001, may be found on page 65 of this report.

The major activities of the Board and their committees during the 12-month period July 2000 through June 2001 were:

- ◆ Held regular monthly meetings and met with representatives of investment management firms and custodian banks on a regular basis.
- ◆ Held hearings for individual plan members who appealed decisions of the Pension Office or questioned the Board's interpretation of State pension laws.
- ◆ Held hearings on the eligibility of individual employees for disability pension benefits.
- ◆ Participated in meetings with the Governor's staff, members of the General Assembly, officials of State agencies and school districts, the Pension Advisory Council, representatives of employee organizations, and other interested parties.
- ◆ Participated in the thorough review of the policies, practices, and operations of the Board and Pension Office by the Joint Sunset Committee of the General Assembly.

2001 Legislation Affecting Pensions

- H. B. 17
(73 Del. Laws, C18) Permits retirees in the State Employees' Pension Plan to be substitute teachers without affecting their pension benefits.
- S. B. 120
(73 Del. Laws, C79) Allows retired Justices of the Peace to serve on a temporary basis as a Justice of the Peace without affecting their pension benefits.
- S. B. 160
(73 Del. Laws, C198) Allows former elected officials, who have earned their pensions and whose pensions are fully funded, to receive their pensions while employed by the State if they are age 55 or older.
- S. B. 253
(73 Del. Laws, C153) Allows employees under the State Employees' Pension Plan hired prior to July 1, 1976 to purchase approved medical leaves of absence at a maximum rate of 5% of the final average compensation.
- S. B. 254
(73 Del. Laws, C154) Provides for a two-thirds survivor option for retired members of the Revised Judiciary Plan if they elect a 2% reduction in their monthly pension benefit.
- S. B. 256
(73 Del. Laws, C146) Increases pension payments for members of the following pension plans who retired on or before June 30, 2001: State Employees', Special, New State Police, Judiciary, and County & Municipal Police/Firemen's (FICA and Non-FICA).
- Increases the group life benefit from \$6,000 to \$7,000 effective July 1, 2001 for the following plans: State Employees', Special, Closed State Police, and New State Police.
- Modifies the multiplier used in calculating benefits under the State Employees' Pension Plan from 1.8% of final average salary to 2.0% for years of credited service prior to January 1, 1997, and to 1.85% for years of credited service after December 31, 1996.

Members of the *Delaware State Police* were first covered under a pension plan in 1937. Delaware State police are covered under a pension plan only and are not covered under the Federal Social Security Program. The State Police Plan was substantially improved between 1937 and 1969 and, at that time, was considered to be one of the most liberal plans for policemen in the United States. Benefit provisions under the Closed State Police Pension Plan have remained essentially unchanged since 1969.



4th Delaware State Police Badge in service from 1944 until 1956

As of June 30, 1967, there were 264 active members in the Closed State Police Pension Plan. The average age was 33 and the average service was 9 years. The average annual salary was \$6,242 per member.

In 1967 there were 125 pensioners receiving benefits, including 91 service retirees, 13 disability retirees (10 service related and 3 non-service related), and 21 widows of deceased police officers (13 officers died after retirement and 8 who died in service). The average age of the service and disability retirees was 55 and the average monthly payment was \$328. The average age of the 21 survivors was 50 and the average monthly payment was \$239.

At the end of 1970, there were 154 pensioners receiving monthly benefits. The average monthly pension benefit was \$496.



The first State Police Station was located on the southbound side of the Philadelphia Pike at Bellevue. It was an old construction shack that served both as the station and as headquarters. This building housed fourteen men who worked twelve-hour shifts, seven days a week. From this single location the officers policed the entire state.



DELAWARE STATE POLICE MUSEUM

1425 North DuPont Highway
Dover, DE 19901

Photos and graphics courtesy Delaware State Police.

Effective July 1, 1980, all newly-hired State Police Officers were automatically enrolled in the New State Police Pension Plan. At the end of Fiscal Year 1981, there were 13 members with an average age of 24, average service was 4 months, and the average annual salary was \$14,300.

Pension benefits were first distributed from this plan during Fiscal Year 1989—one service-related disability and one surviving widow of a member who died in service. On June 30, 1989, there were 328 active members with an average age of 28.75 years, average service of 4 years, and an average annual salary of \$32,000.

On June 30, 2001, active members in both the Closed and New State Police Pension Plans totaled 584, with an average age of 37, average service of 11 years, and an average annual salary of \$52,900.

State Police Pensioners on June 30, 2001 totaled 563, with an average age of 61, average service of 19 years, and an average monthly benefit of \$2,600.

***Delaware State Police
Mission Statement:***

To provide citizens and visitors of the State of Delaware with a professional and compassionate police service in a fair and objective manner.



5th Delaware State Police
Badge in service since 1956